FORM #650NY
PM INT. REV. 6/88
COMP D3749/A86 (1)

APPROPRIATION REQUEST

Summary (Page 1)

1. COMPANY OR DIVISION	2. PLANT OR LOCATION	3. APPROP. NO.	4. SUPPL. NO.
PHILIP MORRIS, U.S.A.	Richmond		

5. PROJECT TITLE
PROJECT DELTA

6. PROJECT DESCRIPTION
Provide equipment and facility to produce 1.5 billion articles per year of Project Delta.

7. AMOUNT

FIXED ASSETS	$ 71,000,000
CAPITALIZED INTEREST	-0-
WORKING CAPITAL	626,000
EXPENSE	945,000
TOTAL REQUEST	$ 72,571,000

8. CATEGORY OF CAPITAL EXPENDITURE

1. ☐ INCREASED CAPACITY
2. ☐ COST REDUCTION
3. ☐ NEW VENTURE
4. ☐ STRAIGHT REPLACEMENT
5. ☒ PRODUCT LEADERSHIP/COMPETITIVE PRESSURES
6. ☐ COMPLIANCE WITH OUTSIDE REQUIREMENTS
7. ☐ ADMINISTRATIVE REQUIREMENTS
8. ☐ RESEARCH/DEVELOPMENT
9. ☐ STRATEGIC REQUIREMENT
10. ☐ ENGINEERING/ENGINEERING DESIGN

9. PROJECT STATUS (FIXED ASSETS ONLY)

THIS REQUEST $ 71,000,000 PREVIOUS AUTHORIZATION $ N/A TOTAL COST $ 71,000,000

PROJECT WAS ☒ WAS NOT ☐ INCLUDED IN THE 3-31-88 (Date) CAPITAL EXPENDITURES FORECAST FOR $ 113,354,000

PROJECT WAS ☒ WAS NOT ☐ INCLUDED IN THE 88-92 (Year) FIVE YEAR PLAN FOR $ 113,354,000

10. SUMMARY OF FACILITIES TO BE RETIRED (SEE FORM #651 P.M. INC. ATTACHED)

ORIGINAL COST $ N/A

LOSS OR (GAIN) ON DISPOSITION $ N/A

11. FORECAST OF CASH OUTLAY (FIXED ASSETS ONLY)

3rd Q 19 88	4th Q 19 88	1st Q 19 89	2nd Q 19 89	YEAR 0 TOTAL
$ 15,011,000	$ 3,603,000	$ 30,124,000	$ 8,411,000	$ 57,149,000
YEAR 1 TOTAL	**YEAR 2 TOTAL**	**YEAR 3 TOTAL**	**SUBSEQUENT**	**TOTAL CASH OUTLAY**
$ 13,851,000	$	$	$	$ 71,000,000

ESTIMATED COMPLETION DATE December 31, 1989

12. REQUIRED APPROVALS

D. E. Merrill
D E Merrill — 6-14-88
Originator/Coordinator — Date

P. F. Nolan — 6-14-88
Date

R Moore 6-15-88
Date

13. INCREMENTAL PROFIT ANALYSIS AND TOTAL CASH FLOW (PAGE 3)

A. PAYBACK PERIOD N/A YEARS

B. RETURN ON INVESTMENT N/A %

C. PROJECT LIFE 15 Years

2020349348

14. APPROVAL - PHILIP MORRIS COMPANIES INC. $1,000,000 AND OVER

[signature]	6/15/88	[signature]	6/22/88
Operating Company Controller	Date	VICE PRESIDENT & CONTROLLER	Date
[signature]	6/16/88	[signature]	6/23-88
Operating Company Vice President	Date	VICE PRESIDENT - PLANNING	Date
[signature]	[illegible]	[signature]	[illegible]
Vice President Finance	Date	VICE PRESIDENT - CHIEF FINANCIAL OFFICER	Date
[signature]	6/20/88	[signature]	6/20/88
Vice President Operations	Date	EXECUTIVE VICE PRESIDENT	Date
[signature]	6/20/88		
Operating Company President	Date	CHAIRMAN, PRESIDENT, VICE CHAIRMAN	Date

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

PHILIP MORRIS COMPANIES INC.

SUBMISSION TO
THE BOARD OF DIRECTORS

APPROVALS

HAMISH MAXWELL

JOHN A MURPHY

R. WILLIAM MURRAY

PHILIP L. SMITH

DATE: • June 20, 1988

TO: • Mr. Hamish Maxwell

FROM: • R. William Murray

SUBJECT: • CAPITAL APPROPRIATION REQUEST: DELTA SMOKING ARTICLE

The attached appropriation request from Philip Morris U.S.A. requests approval of $71 million for the Delta project. Delta is a smoking article designed as an alternative to the conventional cigarette; it is based on the principle of drawing heated air over a tobacco flavor chamber - as contrasted with burning tobacco as is the case with a conventional cigarette. This product will compete with the recently announced Reynolds smoking article.

The funds requested will enable us to establish a production facility capable of producing 1.5 billion cigarettes per annum - or approximately 1/4 of 1% of the U.S. market. The facility planned will enable us to produce Delta type cigarettes in quantities sufficient for test marketing and also, and very importantly, gain experience in producing these new smoking articles.

It is believed that expansion beyond the 1.5 billion annual production level could be accomplished in a reasonably short period should market conditions require this.

The project is not without risk as consumer demand for this new type of smoking article has yet to be determined. Of the funds requested, some $29.4 million will be required for conventional cigarette making and packing equipment and $3.3 million for the purchase of a facility to assemble the product. If the new smoking article is not successful in the marketplace, the making and packing equipment could be used elsewhere in our cigarette manufacturing operations and the building could be sold. We are, therefore, putting some $38.3 million at risk, but it is believed that, by doing so, we will ensure that we will have the ability to compete in what could become a new segment of the U.S. cigarette market.

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FORM #37408
PM CORP. REV. 2/88
COMP. A50(6)

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

I recommend this appropriation request for approval by the Office of the Chairman and the Board of Directors.

cc: R. N. Beane
D. Fried
E. Houminer
R. C. Lowes
J. Mowrer
J. A. Murphy
F. E. Resnik
P. L. Smith
H. G. Storr

2020349350

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

PHILIP MORRIS U.S.A. INTER-OFFICE CORRESPONDENCE

120 Park Avenue, New York, NY 10017

TO: Mr. R. William Murray DATE: June 20, 1988

FROM: Frank E. Resnik

SUBJECT: CAPITAL APPROPRIATION REQUEST:
PROJECT DELTA SMOKING ARTICLE

Philip Morris U.S.A. requests approval of $71,000,000 for equipment and a facility to assemble the Project Delta Smoking Article in quantities equivalent to 1/4 of 1% share of market. The smoking article is comprised of a front section or "flavor generator" and a rear section designed to present a product resembling a conventional cigarette.

This capital appropriation consists of four parts: flavor generator equipment, making equipment, packing equipment, and final assembly facility.

The flavor generator is comprised of a holding tube, carbon heat source, and a tobacco column. The carbon heat source requires proprietary process know-how and specialized equipment. Therefore, we have chosen an outside supplier to produce the heat source under a confidentiality agreement. The holding tube and tobacco processing equipment will be purchased and installed in-house.

The flavor generator components will be assembled using a custom designed machine. The machine is currently under development and will be capable of assembling two thousand flavor generator units per minute. A total of five assembly machines will be required to support the project.

The making equipment includes the purchase, modification and installation of Protos/Max 80 maker complexes, HCF-80 trayfillers, KDF-2 plug makers, Polar plug reservoir, Aphis distributors, and tray unloaders. This equipment will make the rear section and combine it with the front section.

The packing equipment includes the purchase and installation of four G.D X-2 modified packers, two tray unloaders, one Focke case packer, carton handling equipment, and associated inspection systems.

In the event no viable market develops for this product, the making and packing equipment can be remodified and used in our cigarette operations.

2020349351

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

Regarding the patent situation, R. J. Reynolds has made extensive patent filings for its device. While there is a likelihood that Reynolds may charge Philip Morris with infringement of its patents, we have been advised by patent counsel that there are substantial defenses to those charges. Philip Morris has also made patent filings on these devices and we are confident that we can bring to market a competing product.

This project was included in the Original Capital Expenditures Forecast and the 1988-1992 Five Year Plan for $113,354,000.

FER:jag
40001
Attachment

F. E. Resnik

2020349352

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

PHILIP MORRIS U.S.A.

INTER-OFFICE CORRESPONDENCE

RICHMOND, VIRGINIA

To: Mr. M. A. Serrano

Date: June 16, 1988

From: W. J. Campbell

Subject: CAPITAL APPROPRIATION REQUEST--PROJECT DELTA

The attached appropriation requests your approval of $71,000,000 capital and $945,000 expense to product a 1/4% market share (1.5 billion units) of the Delta smoking article.

This initial request for the Delta Project is structured on a minimum expenditure basis to limit our exposure should the market projections for this article not be realized. $29.4 million of this expenditure is for equipment normally used in cigarette operations and could be utilized for normal production.

The main categories of this minimal expenditure are as follows:

Manufacturing Facility	$ 6,900.0
Front End Flavor Generator	20,039.0
Making Equipment	26,334.0
Packing Equipment	15,252.0
Computer Support/QA Equipment	2,475.0
TOTAL	$71,000.0

Expansion to a .6% market share could be accomplished within the existing facility. Increasing production to a 1% market share would require an addition to the existing facility.

The project was included in the 1988 First Revised and 1988-1992 Five-Year Plan for $113,354,000.

W. J. Campbell

2020349353

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

APPROPRIATION REQUEST
TIME SCHEDULE OF INVESTMENT (PAGE 2)
(Amounts in Thousands)

PLANT OR LOCATION: Richmond
DATE: May 26, 1988
PROJECT TITLE: PROJECT DELTA

(INFLOWS)/OUTFLOWS – INVESTMENT CASH OUTLAYS

PERIOD	LINE NO.	YEAR 0 3rd Q 1988	YEAR 0 4th Q 1988	YEAR 0 1st Q 1989	YEAR 0 2nd Q 1989	YEAR 0 TOTAL	YEARS 1 1989-90	2	3	SUB-SEQUENT	TOTAL
FIXED ASSETS:		$	$	$	$	$	$	$	$	$	$
Land	1										
Land Improvements	2										
Buildings	3	3,300.0		2,700.0		6,000.0					6,000.0
Building Equipment	4										
Machinery and Equipment	5	11,711.0	3,603.0	25,424.0	8,411.0	49,149.0	13,851.0				63,000.0
Data Processing Equipment	6			1,600.0		1,600.0					1,600.0
Furniture and Fixtures	7										
Transportation Equipment	8			400.0		400.0					400.0
Leasehold Improvements	9										
Other *(Specify)*	10										
Total Fixed Assets	11	15,011.0	3,603.0	30,124.0	8,411.0	57,149.0	13,851.0				71,000.0
WORKING CAPITAL:											
Increase/(Decrease) in Accounts Receivable	12										
Increase/(Decrease) in Inventories	13				626.0	626.0					626.0
Increase/(Decrease) in Other Current Assets	14										
(Increase)/Decrease in Current Liabilities	15										
Total Working Capital	16				626.0	626.0					626.0
Total Project Investment	17	$ 15,011.0	$ 3,603.0	$ 30,124.0	$ 9,037.0	$ 57,775.0	$ 13,851.0	$	$	$	$ 71,626.0

20203493S4

WRA 6/15/88

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Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

APPROPRIATION REQUEST
SUPPLEMENTAL INFORMATION (PAGE 4)
(Amounts in Thousands)

May 26, 1988

1. DETAIL OF COST ESTIMATE PROJECT DELTA

ITEM NO.	DESCRIPTION	THIS REQUEST	PREVIOUS AUTHORIZATION	TOTAL COST
		$	$	$
	CAPITAL			
	Manufacturing Facility			
1.	Purchase Building	3,300.0		3,300.0
2.	Modifications to Existing Building	2,700.0		2,700.0
3.	Material Handling Equipment (Fork Trucks, Carts, Etc.)	400.0		400.0
4.	Maintenance and shop equipment	500.0		500.0
	Total Manufacturing Facility	6,900.0		6,900.0
	TOTAL MANUFACTURING FACILITY	$ 6,900.0	$	$ 6,900.0

2. PRODUCTION (IF APPLICABLE) **2020349355**

UNIT OF MEASUREMENT (in 000's) _____	PRESENT	PROPOSED
A. TOTAL CAPACITY		
B. PRACTICAL CAPACITY		
C. CURRENT PRODUCTION		
D. ANTICIPATED PRODUCTION – AVERAGE		
E. ANTICIPATED PRODUCTION – PEAK		

T&A 6/15/88

Form #650-PM Inc.-REV 6/76

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

APPROPRIATION REQUEST
SUPPLEMENTAL INFORMATION (PAGE 4)
(Amounts in Thousands)

May 26, 1988

1. DETAIL OF COST ESTIMATE **PROJECT DELTA**

ITEM NO.	DESCRIPTION	THIS REQUEST	PREVIOUS AUTHORIZATION	TOTAL COST
		$	$	$
	CAPITAL			
	Front End Flavor Generator Requirements			
5.	Purchase and install carbon extrusion equipment (one extrusion line for 1.5 billion units/year at Stackpole, PA)	8,618.0		8,618.0
6.	Purchase and install paper laminate tube equipment (1.5 billion units/year; At Stone Paper College Park, MD)	4,000.0		4,000.0
7.	Purchase and install tobacco extrusion equipment (at Philip Morris)	1,000.0		1,000.0
8.	Purchase and install tobacco feed equipment (at Philip Morris)	600.0		600.0
9.	Purchase (6) retainer clip progressive dies (at Eyelets for Industry, Connecticut)	600.0		600.0
10.	Purchase and install (5) flavor generator assembly machines	3,675.0		3,675.0
11.	Flavor generator assembly machine retooling for long sleeves (one set)	650.0		650.0
12.	Purchase, modify and install material handling equipment for completed flavor generators	896.0		896.0
	TOTAL FLAVOR GENERATOR REQUIREMENTS	$ 20,039.0	$	$ 20,039.0

2. PRODUCTION (IF APPLICABLE) **2020349356**

UNIT OF MEASUREMENT (in 000's) _____	PRESENT	PROPOSED
A. TOTAL CAPACITY		
B. PRACTICAL CAPACITY		
C. CURRENT PRODUCTION		
D. ANTICIPATED PRODUCTION – AVERAGE		
E. ANTICIPATED PRODUCTION – PEAK		

WRL 4/15/88

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

APPROPRIATION REQUEST
SUPPLEMENTAL INFORMATION (PAGE 4)
(Amounts in Thousands)

May 26, 1988

1. DETAIL OF COST ESTIMATE **PROJECT DELTA**

ITEM NO.	DESCRIPTION	THIS REQUEST	PREVIOUS AUTHORIZATION	TOTAL COST
		$	$	$
	CAPITAL			
	Making Equipment			
13.	Purchase (7) Protos/Max 80 @ $1,184,353 ea. *	8,290.0		8,290.0
14.	Purchase (7) HCF-80 Trayfillers @ $112,794 ea. *	790.0		790.0
15.	Purchase (1) Max 80 Tipper @ $439,427 *	439.0		439.0
16.	Purchase (5) KDF-2/AF-1-500 @ $498,461 ea. *	2,492.0		2,492.0
17.	Purchase (1) Cigarette Handling System - e.g. Oscar, Magomat, Resy, etc. @ $289,117 *	289.0		289.0
18.	Purchase (1) Plug Handling System - e.g. Aphis, Magomat, Resy, etc. @ $231,028 *	231.0		231.0
19.	Purchase (4) Combined Filter Handling Systems - e.g. Oscar, Magomat, Resy, etc. @289,117 ea. *	1,156.0		1,156.0
20.	Purchase (4) Finished Article Handling Systems @ $119,239 ea. *	477.0		477.0
21.	Purchase (4) Flavor Generator Handling System e.g. Magomat, Resy, etc. @ $231,028 ea. *	924.0		924.0
22.	Fabricate (4) Mechanical Perforators @ $250,000 ea.	1,000.0		1,000.0
23.	Fabricate (4) Tube Slitting Equipment @ $439,427 ea.	1,758.0		1,758.0
24.	Purchase (1) Mulfi Combiner @ $588,395 *	588.0		588.0
25.	P.M. modifications to making equipment includ. maker link-up to Cigarette Handling System	7,000.0		7,000.0
26.	Installation of making equipment	900.0		900.0
	TOTAL MAKING TOTAL	$ 26,334.0	$	$ 26,334.0

2. PRODUCTION (IF APPLICABLE) **2020349357**

UNIT OF MEASUREMENT (in 000's)_____	PRESENT	PROPOSED
A. TOTAL CAPACITY		
B. PRACTICAL CAPACITY		
C. CURRENT PRODUCTION		
D. ANTICIPATED PRODUCTION – AVERAGE		
E. ANTICIPATED PRODUCTION – PEAK		

Source: https://www.industrydocuments.ucsf.edu/docs/fzgm0000

APPROPRIATION REQUEST
SUPPLEMENTAL INFORMATION (PAGE 4)
(Amounts in Thousands)

May 26, 1988

1. DETAIL OF COST ESTIMATE **PROJECT DELTA**

ITEM NO.	DESCRIPTION	THIS REQUEST	PREVIOUS AUTHORIZATION	TOTAL COST
		$	$	$
	CAPITAL			
	Packing Equipment			
27.	Purchase (4) G.D X2 NV Packers @ $2,209,689 ea. *	8,839.0		8,839.0
28.	P.M. Packer Modifications	3,954.0		3,954.0
29.	Purchase (4) G.D A-400 @ $88,053 ea. *	352.0		352.0
30.	Purchase (1) Focke 510 Transfer Device @ $100,192 *	100.0		100.0
31.	Purchase (1) Focke 485 Casepacker @ $324,129 *	324.0		324.0
32.	Casepacker Modifications	20.0		20.0
33.	Carton and Case Inspection Systems	110.0		110.0
34.	Carton Handling System with Elevators and Traffic Cops	200.0		200.0
35.	Installation of Packing Equipment	1,353.0		1,353.0
	TOTAL PACKING EQUIPMENT	$ 15,252.0	$	$ 15,252.0

2. PRODUCTION (IF APPLICABLE) **2020349358**

UNIT OF MEASUREMENT (in 000's) _____	PRESENT	PROPOSED
A. TOTAL CAPACITY		
B. PRACTICAL CAPACITY		
C. CURRENT PRODUCTION		
D. ANTICIPATED PRODUCTION – AVERAGE		
E. ANTICIPATED PRODUCTION – PEAK		

WRA 11/5/88

Form #650-PM Inc.-REV 6/76

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

APPROPRIATION REQUEST
SUPPLEMENTAL INFORMATION (PAGE 4)
(Amounts in Thousands)

May 26, 1988

1. DETAIL OF COST ESTIMATE PROJECT DELTA

ITEM NO.	DESCRIPTION	THIS REQUEST	PREVIOUS AUTHORIZATION	TOTAL COST
		$	$	$
36.	Computer Applications (Maintenance, Time and Attendance, Direct Materials Control, etc.)	1,600.0		1,600.0
37.	Q.A. Equipment	875.0		875.0
	TOTAL CAPITAL	71,000.0		71,000.0
	EXPENSE			
38.	Product Development	500.0		500.0
39.	Purchase (300) Material Handling Trays @ $150 ea.	45.0		45.0
40.	Purchase (4) retaining clip progressive dies	400.0		400.0
	TOTAL EXPENSE	945.0		945.0
	*Based upon Forward Exchange Rates Quoted May 13, 1988			
	TOTAL REQUEST	$ 71,945.0	$	$ 71,945.0

2. PRODUCTION (IF APPLICABLE) N/A

2020349359

UNIT OF MEASUREMENT (in 000's)	PRESENT	PROPOSED
A. TOTAL CAPACITY		
B. PRACTICAL CAPACITY		
C. CURRENT PRODUCTION		
D. ANTICIPATED PRODUCTION – AVERAGE		
E. ANTICIPATED PRODUCTION – PEAK		

Form #650-PM Inc. REV 6/76

Source: https://www.industrydocuments.ucsf.edu/docs/lzgm0000

FOREIGN CURRENCY EXPOSURE

TOTAL DM REQUIRED	DM	23,086,354
COMPOSITE FOREIGN EXCHANGE RATE 1.6592		$13,914,148
+7.5% CFI		1,043,561
TOTAL		$14,957,709
TOTAL LIRA REQUIRED	LIRA	11,074,222,772
COMPOSITE FOREIGN EXCHANGE RATE 1295.26		$ 8,549,807
+7.5% CFI		641,236
TOTAL		$ 9,191,043
TOTAL POUND STERLING REQUIRED	£	683,560
COMPOSITE FOREIGN EXCHANGE RATE 1.8787		$ 1,284,204
+7.5% CFI		96,315
TOTAL		$ 1,380,519

2020349360

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